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Comparative Study of SS and CS Retirement Reveals Important Differences

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(Ed. Note: While I'm on my way to California to study and report on civil service in the field, I have today from the CSCommission an authoritative report on a major topic of the day, "Civil Service Retirement versus Social Security."—H. L.)

The current proposal to grant probational indefinite status to employes appointed from a register has important retirement implications. Employes affected quite naturally will ask: Do I stay under social security or do I go under civil service retirement—and where am I better off?

Under present regulations, the emergency-indefinite employe — whether or not appointed from a register—is subject to social security. He pays a tax of 1½ per cent on his wages up to $3,600 per year. This tax rate is scheduled to increase to 2 per cent in 1954, to 2½ per cent in 1960, to 3 per cent in 1965, and finally to 3¼ per cent in 1970. His government employment is combined with any prior or subsequent employment under social security to determine eligibility for and amount of old-age and survivors' benefits.

An employe subject to civil service retirement contributes 6 per cent of his entire salary. This rate is four times the present social security tax rate, but is less than twice the ultimate rate. Moreover, it applies to all salary instead of only the first $3,600. There is no question but that the employe contributes more under civil service retirement. Now let's see if he gets his money's worth.

In the first place, the civil service contribution is an individual, guaranteed, savings fund. The employe or his survivors will receive, in the form of annuities, lump-sum payment, or a combination of these, at least as much a she has contributed, plus compound interest. Nobody loses; the worst you can do is break even.

On the contrary, the social security tax is just that—a tax. You never get it back. You may—or may not—get back benefits equal to it. Persons who shift to employment not covered by social security can lose every penny of taxes paid. Young women who, prior to marriage, work less than 10 years under social security acquire no old-age benefits rights unless they have subsequent covered employment.

Of course this obvious advantage of a guaranteed return under civil service retirement isn't the whole story by any means. In the area of providing income when disability, death, or c'l-age terminates earning capacity, civil service retirement offers more to the long-service, career employ; social security is better for the older, short-service employe.

This situation results from a basic difference between the two systems. Under civil service, annuity benefits are directly proportional to length of service. The 30-year employe receives twice the annuity of the 15-year employe with an identical five-year average salary, and the same is true for annuities to their widows. Under social security, however, length of employment does not affect the amount of benefit, except for the reduction in average wage because of non-covered periods. For example, it is possible to qualify for social security benefits with as little as six quarters of coverage. The benefits are precisely as much as those to a person with the same average wage who paid taxes for 45 years.

For older employes who can qualify for old-age benefits in a relatively short time, social security is generally a better bargain. For a $3,600 employe retiring at age 65, the monthly benefit is $80. There is an additional benefit of $40 to the wife when she reaches age 65. Under civil service, the monthly annuity based on five years of service is $25; on 10 years, $51, and on 15 years, $76. However, the annuity begins at age 62 instead of 65. It is greater, of course, for higher salaries; on a $6,000 salary, the monthly amounts for five, 10, and 15 years of service are $38, $75, and $113.

For the short-service, younger employe, the advantages of social security in respect to old-age benefits are much less than for older employes. Civil service retirement coverage of five years or more accords title to an annuity at age 62 (unless the employe elects a refund); the amount of this annuity is not reduced because of subsequent periods of non civil service coverage. He can gain more than he loses by not having been under social security during his federal service.

As an example, a 35-year-old employe, with a salary of $3,600, came under civil service retirement on Jan. 1, 1951. After 15 years, he resigns and then works under social security until age 65. Beginning at age 62, his civil service annuity is $76 per month. At age 65, he is eligible for a social security benefit of $57.50. (His average wage for social security purposes, is $1,800 because he was covered only one-half the time from Jan. 1, 1951). Had he been covered by social security the entire 30 years, the benefit would be $80. He loses $22.50 on social security , and gains $76 from civil service.

The advantages of civil service become aparent when longer service is considered. The 30-year employe whose salary averages $3,600 for any five consecutive years (not for a full working lifetime) receives a monthly annuity of $153; for service of 40 years, $203. On a $6,000 salary, the monthly amounts are $225 and $300 for 30 and 40 years, respectively. Moreover—and this is an important difference—these annuities can commence at age 60, or, with a reduction of 15 per cent, at age 55. Social security offers a maximum of $80, beginning at age 65, or $120 to a couple when the wife reaches that age.

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